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CONTINENTAL CAN COMPANY INC.

Annual Report 1965

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Continental Can Company, Inc.
633 Third Avenue, New York, N.Y. 10017

Contents

Annual Meeting

The Annual Meeting of Stockholders will be held at 10 a.m. New York City time Tuesday, April 26, 1966, at the Biltmore Hotel, Madison Avenue and 43rd Street, New York City.

NOTE — The following trademarks mentioned in this report are owned by Continental Can Company, Inc.: Ring-Pull, Super Ring-Pull, White Cap, Triple-C, Tite-Pack, PT, Jak-Et-Pak, Egg-Safety, Bondware, Twist-Off, Hazelware, Decoware, Quartite, Porium, Shellmar and Bond Crown.

Highlights of The Year

	1965	1964
Net Sales and Operating Revenues	$1,225,574,000	$1,198,120,000
Earnings—		
Before income taxes	$ 111,233,000	$ 93,169,000
Per cent of sales	9.1%	7.8%
After income taxes	$ 59,233,000	$ 48,869,000
Per cent of sales	4.8%	4.1%
Per Common Share*	$ 4.81	$ 3.97
Reinvested in the business	$ 31,964,000	$ 24,117,000
Per Common Share*	$ 2.61	$ 1.98
Dividends to Common Stockholders	$ 26,868,000	$ 24,298,000
Per Common Share**	$ 2.20	$ 2.00
Capital Expenditures	$ 83,000,000	$ 58,900,000
Working Capital—December 31	$ 172,733,000	$ 176,483,000
Common Shares Outstanding—December 31	12,232,564	12,188,295
Common Stockholders' Equity—December 31, per share	$ 41.87	$ 39.25
Average Number of Employees	46,479	48,661

**Based on number of Common Shares outstanding at year end.*

***On September 15, 1965 the quarterly Common Stock dividend was increased to 60 cents, equivalent to a $2.40 annual rate per share.*

To Our Stockholders:

The year 1965 was the best in the Company's history. Sales reached a new high of $1,225,574,000 but, more importantly, earnings substantially exceeded any previous year's results — $4.81 per share compared with $3.97 in 1964 and $3.27 in 1963. This performance reflects your Company's vigorous participation in the continued growth of the packaging industry during the strong economic activity of recent years.

Sales were $27,454,000 higher than the sales of 1964. To achieve this gain, we had to make up $45,146,000 of 1964 sales from the Hazel-Atlas plants sold in late 1964 by court order. Thus, a truer comparison, which excludes the Hazel-Atlas plants, shows that sales for all other operations were up $72,600,000, an increase for the year of 6.3 per cent as compared with an increase of 4.9 per cent in 1964. Net return on sales increased from 4.1 per cent to 4.8 per cent.

This added sales volume of $72,600,000 was the largest single factor in carrying our pre-tax income to $111,233,000, a gain of $18,064,000 over 1964. Equipment modernization programs, improved production methods and better plant performance, combined with price improvement in many of our product lines, served to offset the substantial increases in labor and material costs experienced during the year.

During 1965, most of our Company's facilities operated at or near full capacity and all product groups contributed to our record performance. Metal Operations were particularly hard pressed to meet the demand for aerosol cans and for beer and soft drink cans, sales of which were stimulated by continuing widespread acceptance of our Ring-Pull easy-opening end. With the aid of a very high level of activity and firmer prices, the Paper

Products Group again set new records in production and in contribution to the Company's earnings. The Plastics and Closures Group, the new Consumer Products Division and our Canadian Company all shared in the general prosperity and posted new highs in sales and income.

Capital expenditures in 1965 amounted to $83,000,000. In addition to the major expansion under way at our bleached board mill in Augusta, production facilities were expanded and improved in every division of the Company. Operations were started in seven new plants. For 1966, our capital expenditures budget of $90,000,000 provides for 20 new plant locations, five of which will replace existing facilities which have become relatively obsolete. As in 1965, improvements and additions will be made to the production facilities of every division. Our capital expenditure program, outlined in greater detail in the Financial and Operating Review section of this report, has been carefully planned to support our objectives of larger volume and better earnings.

Our financial position continues sound, and our increased capital expenditures will not require major external financing. Year-end inventories were unusually high because of heavy steel purchases made in advance of last November's price increase.

The regular quarterly dividend was raised from 50 cents to 60 cents per share on September 15, 1965, making the annual rate $2.40 per share. As a result, dividends per share paid in 1965 were $2.20 as compared with $2.00 in 1964, $1.95 in 1963 and $1.80 in 1962.

Labor negotiations were a significant factor in 1965. A total of 67 separate labor agreements were signed, covering 27,500 employees in 112 plants. In March, 1965, the Steelworkers Union struck our metal plants (and those of our major competitor) for 23 days. Work was resumed under a 40-month contract, the terms of which, while costly, are within the pattern of settlements made during the year in other industries. Along with other companies in the paper products field, we experienced some difficulties in settling our 1965 labor contract renewals, but most of these are now behind us.

Our non-union salaried employees were granted improved life insurance, pension and medical expense coverage, in line with our policy of keeping our benefit programs comparable to those of major industrial operations.

In September of 1965, the U.S. District Court of New York dismissed without prejudice the Government's complaint, filed in 1956, charging that the acquisition by Continental of Robert Gair Company was in violation of the Clayton Act. We are gratified that the uncertainties created by this suit have been eliminated.

The value of our holdings of 1,000,000 Class B shares of Brockway Glass Company that were received in exchange for certain Hazel-Atlas properties, has been enhanced by favorable reports on Brockway's earnings and prospects for the future. Equally encouraging is the fact that our phosphate holdings in Florida, originally estimated at 30 million tons, are now calculated to be over 80 million tons. Mining of these phosphate deposits by Occidental Petroleum was started in the fall of 1965, and an annual output rate of 3 million tons is expected by the end of 1967.

In January, 1966, your Company acquired the Quartite Creative Corporation, a fast-growing manufacturer of lamps and home furnishings with three modern and efficient plants and annual sales of about $7,000,000. In

T. C. Fogarty, Chief Executive Officer, seated, and E. L. Hazard, President.

addition to strengthening the Consumer Products Division's marketing organization, this acquisition gives impetus to our program for capitalizing upon the demand for housewares and household furnishings during this era of unprecedented growth in family units.

As a matter of record, on January 3, 1966, Continental's symbol on the New York Stock Exchange was changed from "CH" to "CCC" — an identification mark used by the Company since it was founded in 1904.

We devote much time and effort to employee recruiting, training, development and promotion programs to keep our organization healthy and aggressive and to attract to Continental the best possible talent for its future management. The sound state of our management team is due in no small measure to the effectiveness of these programs.

On December 31, 1965, Mr. Stephen D. Bechtel, a devoted member of our Board of Directors for over 14 years, resigned because of a necessity to reduce his business activities. We shall miss his guidance and counsel. To fill the vacancy created by Mr. Bechtel's resignation, the Board of Directors elected Mr. Lawrence Wilkinson who, as of January 1, 1966, was appointed to the position of Executive Vice President — International Operations. Concurrently, Mr. Charles B. Stauffacher was appointed Executive Vice President — Finance and Administration. These and other personnel changes, designed to add strength to our management team, are listed elsewhere in this report.

We hope you will enjoy the reports on our various product groups which follow in the succeeding pages. Your Company is a leader in a changing and highly competitive packaging industry that offers substantial rewards to a resourceful organization. Continental has such an organization and looks forward to the opportunities of the future with confidence.

We derive a keen sense of satisfaction from the figures given to you in this report, a sentiment which we know is shared by over 46,000 co-workers, whose competent performance enabled us to make 1965 the best year we have ever had.

As we move ahead into 1966, production demands continue strong for beer, soft drink and aerosol cans, and for most paper products, plastic containers and closures. Carryover stocks of canned vegetables are at the lowest level in five years, and are about average for canned fruits. Assuming normal weather conditions, we look forward to good packs of these perishables. In summary, prospects for this year appear to be excellent.

We close this message with a note of deep appreciation to our co-workers and to our many loyal stockholders in the confident expectation that we shall go forward together to even greater accomplishments in 1966.

By order of the Board of Directors,

T. C. Fogarty

Chairman of the Board

E. L. Hazard

President

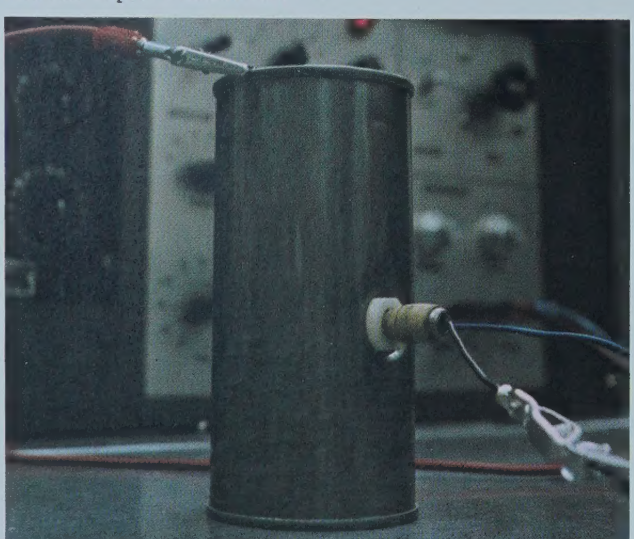
March 15, 1966

Research and Development

Today's packaging world is geared to rapid change. Continental's customers demand more and more in every package they buy because of their customers' insistence on greater convenience, more product protection and improved appearance—in brief, better and better packaging. To insure its customers the very best in packaging, Continental maintains an imaginative, wide-ranging program of research.

The Company's Chicago Technical Center is a modern complex of laboratories, test areas, tool and machine shops and experimental production lines. There, its scientists and technicians team together to assure a continuing flow of new processes, new materials and new equipment for Continental's operations throughout the world.

Research scientists develop, test and improve tinless cans . . .

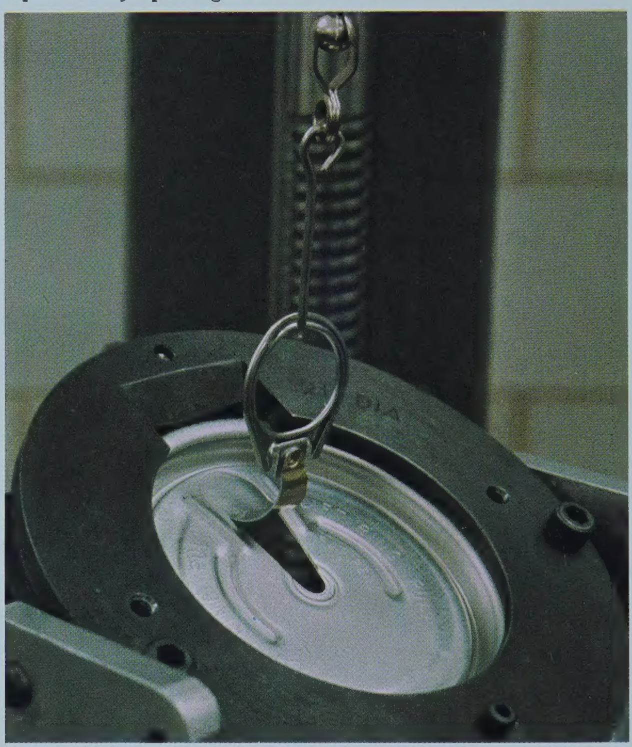


Research at Continental advances along three fronts: Basic Research, Equipment Engineering and Product Development—each contributes to Continental's leading position in the packaging field.

During 1965, research was focused upon a wide range of packaging innovations, including the development of tinless cans, improved aerosol cans, Super Ring-Pull ends, a clear plastic bottle, a revolutionary new White Cap, advanced systems for embossing metal, and superior methods for producing containers from aluminum.

A new flexible pouch for hermetically sealed food products was developed, as was an improved tobacco pouch, a plastic-coated corrugated box for iced poultry and a new-style molded egg carton. The new, fast-growing Ponytail bread package was introduced.

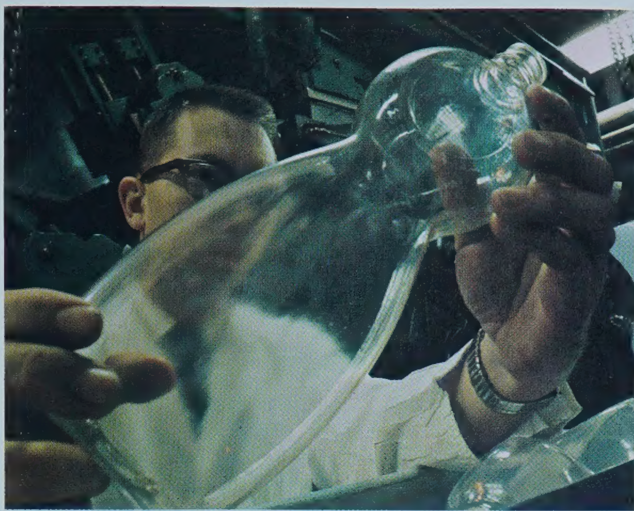
superior easy-opening ends . . .



In the course of the year developments in several of these areas were particularly notable. The Super Ring-Pull was conceived, tested and released for production — a remarkable achievement for any twelve-month period. White Cap's PT (Press-Twist) closure was perfected; it combines fast and tamperproof sealing characteristics with ease of opening for a wide variety of containers and products.

Several million embossed cans were produced in 1965, the first result of a continuing program to provide three-dimensional styling for metal cans. Continental's line of

plastics that rival glass . . .



aerosols — fast-growing in range of sizes and designs as well as sales volume — was improved both functionally and aesthetically.

Research effort developed specifications, manufacturing techniques and equipment to produce aluminum containers by an extrusion and wall-ironing process.

Several variations of the tinless can were put through their development paces at the Center. Continental will offer this type of container commercially for beer and soft drinks when product compatibility has been proved and customer acceptance is assured.

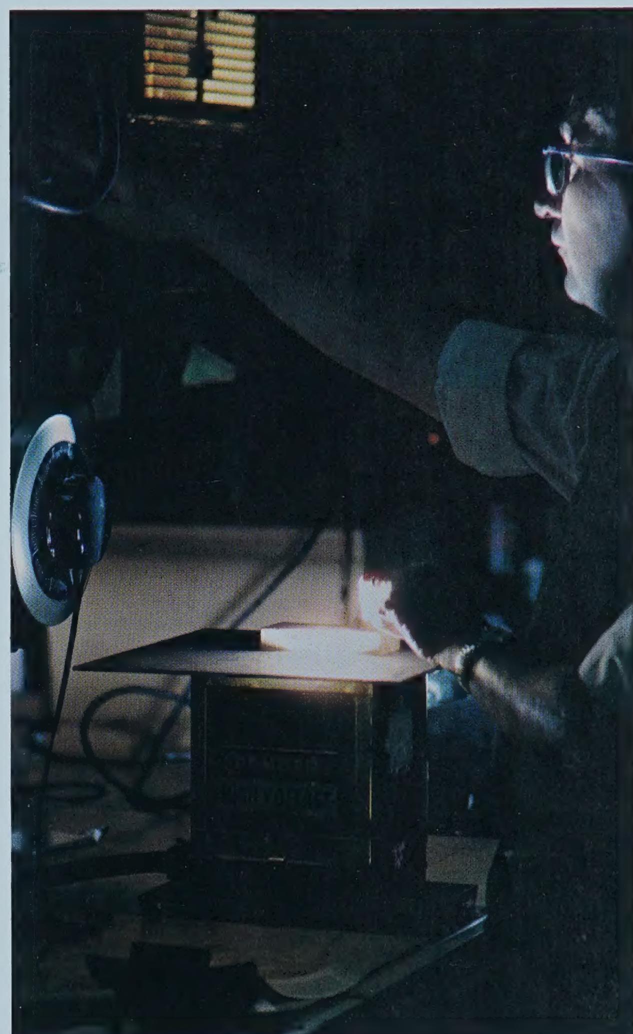
The Equipment Development group at the Technical

and water-resistant corrugated containers . . .

Center provided new and improved machinery for Continental plants and customer in-plant packaging needs. The Tite-Pack, a machine which custom forms and seals corrugated paper blanks around customers' filled containers, has been improved and installed in many customers' plants.

Continental introduced a unique packaging system for dry products. Now in commercial use, this system con-

by applying the results of basic research.



sists of a novel plastic container, a perforated plastic lid and a spin-welding machine with which customers seal the lid to the filled container at high speeds.

Continental's 1965 research program, which paid handsome returns in improved operations and new products during 1965, promises to give the Company a flow of innovations with which to meet the needs of the year ahead.

Metal Operations

When the year ended, the domestic can industry had produced nearly 53 billion cans of all types — tinplate cans, tinless cans, aluminum cans, three-piece cans, two-piece cans, composite cans — the biggest outpouring of these containers in the nation's history.

Continental's Metal Division participates nationwide in every aspect of this dynamic and changing industry, utilizing all container materials and leading the way in most of the rapidly growing areas.

Aerosol containers, a Continental innovation back in 1947, continued their spectacular market performance, growing 23 per cent during the year. New sizes, new styles and new applications were developed for this premier convenience package.

The brewers—Continental's largest customer group—emphasized their preference for self-opening metal cans. In 1965, beer cans accounted for 42 per cent of packaged beer shipments, and passed returnable bottles for the first time. Continental, aided by its new Ring-Pull end, fared well in this rapidly growing market.

Ring-Pull also made itself felt in the soft drink market. During 1965, can purchases by the soft drink industry, up 39 per cent from the year before, were about 3.9 billion units and represented 10.9 per cent of total packages for soft drinks.

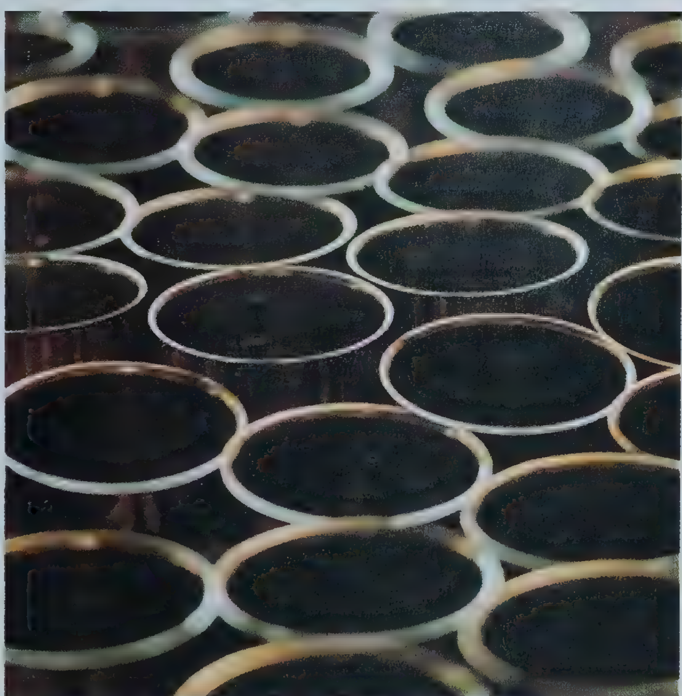
Consumer-tested self-opening ends were also helpful to Continental's can sales in a number of other areas, including snack foods, meat and automotive supplies, and provide a major opportunity for the future. The wide appeal of convenience-oriented innovations of this type and others currently in the development stage should spark relatively dormant can markets to increased sales and profitability.

During 1965, Continental installed a record number of new can-making lines, and opened three new metal can plants in the United States. Despite this, facilities for beer, soft drink and aerosol cans were operated near capacity for most of the year. As a result of further demand and the introduction of new products, such as two-piece aluminum cans and tinless cans, the Metal Division will open 12 new plants in 1966 as part of the largest capital program it has ever undertaken.

The new metal can, the container providing convenience with imaginative design and premium appeal, more often than not is a Continental can.

Practical research coupled with wide knowledge of product and consumer demands has enabled Continental to offer a "self-selling" array of updated metal containers. Customers have been offered a broad choice of reliable metal packages which sell more of their product and return them more profit. And that, in turn, means greater success for Continental today and tomorrow.

Almost 400 thousand miles of tinplate passed under automatic gauges on Continental's high-speed coil lines in 1965. Ring-Pull ends contributed significantly to success in the beer and soft drink industry. Aerosol containers, a Continental innovation, grew 23 per cent, while open-top cans remained an important part of the Company's business.



Paper Products

Continental benefited fully from the strong market demand for paper and paper products throughout 1965. Stepped-up output from company mills, coupled with the advantages of integration of paper operations, again enabled the Paper Products Group to record impressive progress during the year. Without the addition of any major facilities, Continental's mills produced 1,400,000 tons of paper and paperboard in the United States and Canada, an increase of 50,000 tons over 1964. The four large Southern mills, backed up by the Company's 1,271,000 acres of woodlands, operated at practical capacity throughout the year.

Beginning with pulpwood . . .

Market acceptance of bleached board made at the Augusta mill was excellent. Continental's major capital project in 1965 was the addition to this mill of pulp and machine capacity which will come into production during the second quarter of 1966. Augusta's new papermaking machine will have an annual capacity of 80,000 tons, giving this one facility a capacity of over 200,000 tons of bleached paperboard, and pulp production will be increased by 120,000 tons per year.

Continental's mills set production records . . .

Profits were also up for the Northern mills which produce cylinder board from reclaimed fibres. Reduced costs and high levels of operation at the seven boxboard mills contributed substantially to this improvement.

Consistent success in the paper packaging field today demands adequate reserves of woodlands, well-managed high-output mills producing quality paperboard, and converting operations that make the best use of the mills' production while meeting the exacting demands of their markets. Continental's Paper Products Group measures

converting pulp to paper and paperboard . . .

up well in all three areas.

The Corrugated Division, on increased demand and with improved converting facilities, posted its best record in several years. Sales exceeded expectations and manufacturing operations ran at record efficiencies. Continental continues to lead in the production of fibre drums and is sharing in the steady growth of this container. The Folding Carton Division—in a difficult industry—showed considerable improvement over 1964. The Jak-Et-Pak

for industrial packaging . . .

system for multiple packaging of cans and glass containers was the beneficiary of many new applications of its technique. In 1966, the availability of improved grades of board, and new packages combining paper, foil and plastic should improve the Folding Carton Division's volume and profit.

A new molded-pulp egg carton developed by Continental will be added to the Company's current line of paperboard Egg-Safety cartons and marketed in the South during 1966.

Other paper products, including grocery bags and

and consumer products.

sacks, multi-wall bags and the Bondware line of paper plates, cups and tubs, all did well during the year and are expected to show volume increases during 1966.

In a new joint venture, the Company constructed a Southern Pine plywood plant near Hodge, Louisiana. The Company's adjacent timberlands supply much of the new material used. Shipments of plywood will begin in March, 1966.

With growing demand, firmer prices and more stable labor conditions, the Paper Products Group should turn in a strong performance in 1966.

Plastics and Closures

In the Plastics and Closures Group, five operating divisions have aggressively developed new markets for Continental in the areas of plastics, flexible packaging, vacuum caps, crowns and paper cups, plates and tubs.

The Plastic Container Division, Continental's entry in this fast-growing segment of the packaging industry, has a strong position in the household products field. From this base, it is exploring new applications for plastic bottles. The blow-molded container for liquid bleach has taken over in a market once held exclusively by glass. Plastic packages, now in development, will accelerate the replacement of glass by plastic in the food, drug and cosmetic fields. With the opening of a new plant in New Jersey early in 1966, the Division will have plastic container plants in every major market area.

The Flexible Packaging Division works with plastic, paper and foil to produce a wide variety of sophisticated materials and structures used to package everything from dehydrated soups to salted nuts. The most modern, high-speed, multicolor presses support the Division's skill in providing lifelike decoration on its packages.

The unchallenged leader of the vacuum cap industry is Continental's White Cap Division. The Division's familiar Twist-Off cap, first introduced back in 1954, was a forerunner of the current shift to self-opening packages. This year, Twist-Off will be joined by a revolutionary new vacuum closure—the PT cap—which will strengthen Continental's leadership in this field.

The Bond Crown Division produces and markets closures for beer and soft drinks. Second in sales among the 13 companies in the bottle crown industry, the Division has led the way in developing plastic-lined crowns and short-skirt crowns. In addition to producing liners for its crowns at its large cork mill in Wilmington, Delaware, the Division markets such diverse cork items as bulletin boards and highway expansion joints.

The Bondware Division, which produces Continental's paper cups, plates and tubs, is currently upgrading its line to take advantage of increased demand for convenience tableware. In the packaging field, Bondware's new ten-pound paper tub has already secured a strong market position. Thermo-formed plastic tubs are also produced by the Division and serve a growing customer demand for an alternative package to the standard paper tub.

Future plans of each division call for new convenience products for expanding markets. White Cap's new closure has been mentioned. Bond Crown will soon have an aluminum pilferproof twist-off closure for the soft drink and brewing industries. The Plastic Container Division expects clear plastic bottles to challenge glass. The Flexible Packaging Division will soon market a new improved tobacco pouch and a plastic pouch for hermetically sealed foods.

The Plastics and Closures Group established new records in 1965; its growth rate outstripped that of the packaging industry as a whole and should do so again in 1966.

Machinery of Continental's own design blow-molds plastic containers . . .
Plastic film is slit into tear-tapes for cigarette packages . . .
Precision and quality are dominant characteristics of White Cap's new PT cap . . . Inspection supplements careful production to insure sealing effectiveness of Continental crowns.

Consumer Products

Continental's Consumer Products Division was created a little over a year ago to take advantage of two major trends that will shape the national economy during the next decade — an upsurge in the formation of new families and further growth in disposable income. Housewares, now a $10 billion industry, and home furnishings, a $7 billion market, will be prime beneficiaries of these favorable factors.

Consumer Products will capitalize on projected growth. The Division participates through three product lines previously marketed by separate divisions within the Company — Hazelware, glass tablewares; Decoware, metal decorated housewares, and Bondware, paper plates and cups, and the newly acquired Quartite product line.

Consolidation of these lines has strengthened the Division's marketing and distribution organization with a resultant improvement in product sales. However, there are still greater opportunities to increase sales and profits during the next five years.

The disposable tableware market, totaling about $100,000,000, is growing at a rate of over 10 per cent per year. Quality and styling of Bondware is being improved continually, and the Division is considering the addition of new convenience tableware items.

As part of its design for growth and profit, the Division will launch the largest advertising and sales campaign in its history in 1966, using television and major magazines to establish Bondware's brand name.

The machine-made glass tableware industry has grown consistently with total annual sales now exceeding $220 million. Continental's familiar Hazelware line, a leader in the field, sold widely and profitably in 1965 as the Clarksburg, West Virginia, plant operated at high levels of productivity and efficiency. Annual sales of the industry, stimulated by new product introductions, are expected to outpace the growth of the population.

New equipment is currently being installed at Clarksburg, enabling the Division to manufacture a wide variety of additional products, including a new line of tempered glassware made under a license agreement with a leading European producer.

Continental recently acquired the Quartite Creative Corporation, a highly skilled and imaginative firm that manufactures lamps and other home furnishings. The acquisition brings to the Consumer Products Division a proven team noted for its successful merchandising of lamps in department stores. The firm, with headquarters in New York, maintains a nationwide sales organization.

Quartite has also shown ingenuity in developing new materials as components for its products. One such material combines marble dust and plastic for use in tabletops, counters and flooring. Another material, Porium, has facilitated mass production of wall decorations.

Further additions to the line are planned for 1966.

Examples of Continental's consumer products: Bondware, paper plates and cups; Hazelware, glass tablewares; Decoware, metal-decorated housewares, and Quartite, modern lamps and lighting fixtures.

Continental Can of Canada

Packaging demand in Canada has grown rapidly. Today, Continental is the largest and most diversified manufacturer of packaging in Canada. Its big trailers are a familiar sight in all major provinces.

Abroad, the Company operates through licensing arrangements and investments in foreign companies. The modern Shellmar flexible packaging plant in Medellin, Colombia, shown here, is 90 per cent owned by Continental.

The same consumer demand for convenience packaging which has shattered production records in beer, soft drink and aerosol can production in the United States is now becoming evident in Canada. As the largest and most diversified producer of packaging in its country, Continental Can Company of Canada, Limited, is in the best possible position to take advantage of this demand.

Continental of Canada closely parallels the parent company in organization and diversification of product mix, yet operates within a framework of autonomy. Its close United States ties enable it to provide basic new package developments, tailored to Canadian markets, about as soon as they become available domestically.

In 1965, Continental of Canada generated a five per cent sales increase from the production of its 24 plants located in six provinces. These plants are close to large market centers like Toronto and Montreal in the East and Vancouver in the West. Customers are never far removed from a Continental plant. Sales of metal cans, White Caps, plastics, corrugated shipping containers, folding cartons, crowns, Bondware and other packaging ran well over $100,000,000.

Paper products facilities were operated at full capacity. The steady growth in customers' requirements has made necessary a major expansion of capacity, including a large new metal container plant at Toronto which is scheduled to start production of aerosol and soft drink cans in the third quarter of this year.

The 1966 prospects for Continental of Canada are excellent.

Continental Abroad

The packaging revolution is now spreading in industrially developed areas overseas. With growth of self-service stores, higher labor costs and increased mass marketing, foreign producers are demanding the same consumer-oriented packaging that Continental offers in this country.

In only a few cases is it feasible to ship Continental's products from manufacturing points in the United States. Usually, bulky packaging materials must be produced near the point of use.

Continental and its associates will make the most of the growth of packaging abroad. Over the years, license agreements have been signed with 53 leading companies in 45 countries, making Continental know-how available for a fee.

The Company owns shares in 30 of these firms, an investment now valued at about $45 million. In Colombia and in Brazil, Continental holds a 90 per cent interest in two plants producing a variety of packaging materials.

Most of the Company's overseas licenses cover can manufacture. In addition, White Caps are made by 14 licensees; nine others produce paper cups on Continental machinery. The Jak-Et-Pak system is licensed, as is fibre drum, crown, and plastic know-how. Consequently, when United States producers expand overseas Continental moves with them, through its associates.

In 1965, revenues from international operations were the highest in history. But this is only the base for future growth. Recent organizational changes will strengthen Company efforts. With the favorable trends now apparent, rapid progress is expected for Continental abroad.

Financial and Operating Review

Sales and Revenues

Net sales and operating revenues in 1965 reached a new high of $1,225,574,000. This represents a 6.3 per cent increase from 1964 sales which, for comparison purposes, have been adjusted to exclude $45,146,000 of sales from the Hazel-Atlas glass container plants disposed of late in 1964.

Sales totals by the various product lines, including Canada, were approximately:

	1965		1964 (Restated)	
	Total in Millions	*Per Cent*	*Total in Millions*	*Per Cent*
Metal and Composite Containers	$ 694.2	56.6	$ 660.4	57.3
Paper Products and Flexible Packaging	386.9	31.6	361.4	31.3
Plastics, Glass and Closures	111.5	9.1	102.2	8.9
All other	33.0	2.7	29.0	2.5
TOTAL	$1,225.6	100.0	$1,153.0	100.0

Earnings

Net earnings rose to $59,233,000, the highest in the Company's history, and an increase of 21 per cent above net earnings of $48,869,000 in 1964. For comparison purposes no adjustment of 1964 net earnings is required because of the disposition of the Hazel-Atlas glass container plants, as they operated approximately at break-even. Net earnings in 1965 represented a return on sales of 4.8 per cent, compared with 4.1 per cent in 1964.

In 1965, earnings applicable to Common Stock totaled $58,832,000, or $4.81 per share on the 12,232,564 shares outstanding on December 31, 1965. In 1964, earnings of $48,415,000 applicable to Common Stock equalled $3.97 per share on 12,188,295 shares outstanding at year-end 1964.

Depreciation and Income Taxes

The provision for depreciation and depletion in 1965 was $45,094,000, compared with $44,083,000 in 1964.

We continued to use accelerated depreciation methods and useful life guidelines permitted by the Internal Revenue Service for tax purposes, thus reducing income taxes payable on 1965 earnings by approximately $9,827,000. These current tax savings have been added to the reserve for deferred income taxes and do not affect reported income since straight line depreciation, consistent with prior years' reporting, is used for financial statement purposes.

The investment tax credit arising in 1965, and used to reduce the provision for income taxes, was $2,920,000; the comparable figure in 1964 was $2,670,000. The 1964 provision for income taxes was also reduced by the unamortized portion of the investment tax credit for 1962 and 1963 ($1,800,000).

Dividends and Retained Earnings

In 1965, dividends on Common and Preferred Stocks ($26,868,000 and $401,000 respectively) totaled $27,269,000, compared with $24,752,000 in 1964. The increase was due principally to a 20 per cent increase of the quarterly Common dividend rate on September 15, 1965. The new quarterly dividend rate of 60 cents per share, increased from 50 cents per share, is equivalent to a $2.40 annual rate, compared with a $2 rate in 1964. After dividend payments, the remainder of the 1965 earnings, $31,964,000, was retained and reinvested in the business, compared with $24,117,000 for 1964.

Working Capital

At year-end, working capital was $172,733,000, compared with $176,483,000 on December 31, 1964. Ratio of current assets to current liabilities was 2.0 to 1, compared with 2.3 to 1 in 1964.

During the second quarter of 1966, we intend to sell for approximately $7,000,000 our existing steam and power facilities at Augusta to the Peachtree Generating Corp. in which we have a half interest.

Capital Expenditures

In 1965, capital expenditures reached $83,000,000,

compared with $58,900,000 in 1964. The major expansion program started in 1964 in our Augusta, Georgia, bleached board mill continued through 1965. During 1965, operations began at five new metal container plants, two of which are located in Canada, one plastic container plant and one fibre drum plant.

During 1966, operations will commence at 20 new manufacturing locations. Thirteen of these plants will be metal container plants, including one in Canada, two corrugated box plants, two Bondware plants, a fibre drum plant, a plastic container plant and a molded pulp plant for egg cartons. Five of the new plants will replace present locations and 15 will be new to the Company. The large expansion program in our Augusta mill will be completed before mid-year and will make an income contribution in 1966.

Increased demands over the broad front of our many product lines are pushing our productive capacity to the maximum. During the year, the Company inaugurated a more intensive five-year planning program, and our long-term studies of future demand for all of our product lines form the basis for a major portion of our increased capital expenditures.

In 1966, capital expenditures are expected to reach $90,000,000. A substantial amount will be spent to produce two-piece seamless cans. Several lines of equipment for beverage and aerosol cans, cups, paper plates, plastic bottles, glassware and new closures for glass containers will be installed in existing plants.

Phosphate Deposits

The 15-year agreement with Occidental Petroleum Corporation for the sale of phosphate deposits under the Company's Florida forest lands was announced in 1964. Further exploratory drilling now indicates that 80 million tons of recoverable phosphate are available, compared to initial estimates of 30 million tons. Occidental began mining operations in September, 1965, and is paying Continental 40 cents per ton mined, with a minimum yearly payment of $300,000. At the end of 1979 Occidental is required to make a lump sum payment for the remaining phosphate deposits at the rate of 40 cents per ton.

Group Insurance and Pensions

The cost of employee group insurance for 1965 was $16,791,000. In 1964, it amounted to $16,101,000. This insurance provides health and accident, hospitalization, surgical and life benefits for all employees. Dependents also participate in many of these benefits.

Pension costs for 1965 were $15,412,000 compared with $14,168,000 a year earlier. At the year's end, 3,969 retired employees were receiving pensions under the Company's active pension plans, compared with 3,537 in 1964.

The average number of employees during 1965 was 46,479.

Stockholders

On December 31, 1965, 817 stockholders held 103,335 shares of Preferred Stock and 65,703 stockholders held 12,232,564 shares of Common Stock. In addition, 46,665 Preferred shares and 335,828 Common shares were held in the treasury. Approximately 89 per cent of the registered stockholders were individuals holding about 41 per cent of the outstanding Common shares.

Charles B. Stauffacher

Executive Vice President,
Finance and Administration

Principal Organizational Changes

Charles B. Stauffacher, formerly Executive Vice President, Paper Products Operations Group, was elected Executive Vice President, Finance and Administration.

Lawrence Wilkinson, formerly Executive Vice President, Finance and Administration, was elected Executive Vice President, International Operations, and a Director.

E. Ewart Fry, formerly Executive Vice President of Continental Can Company of Canada, Limited, was elected President of that Company.

William M. Allin, formerly Vice President and General Manager, Paperboard and Kraft Paper Division, was elected Vice President, Paper Converting Operations.

David R. Arnold, Comptroller, was elected a Vice President.

Fred W. Hoover, Jr., formerly Vice President and General Manager, Consumer Products Division, was elected Vice President—Assistant General Manager, Metal Operations.

Lenvik Ylvisaker, formerly Vice President, Manufacturing, was elected Vice President, Overseas Manufacturing Operations.

John P. Kearney was appointed General Manager, Consumer Products Division.

George K. Landon, formerly Manager of Manufacturing, Flexible Packaging Division, was appointed General Manager, Bondware Division.

George A. Oeschle, Jr., formerly Pacific Regional Manager, Folding Carton Division, was appointed General Manager, Folding Carton Division.

Dean P. Stout, formerly General Sales Manager, Paperboard and Kraft Paper Division, was appointed General Manager, Paperboard and Kraft Paper Division.

Richard D. Weinland, formerly Assistant General Manager Overseas Division, was appointed General Manager, Overseas Division.

Carroll F. Marquard, formerly General Manager of Operations Engineering, was appointed General Manager of Manufacturing.

Lawrence S. Barker, Jr. was appointed General Manager, Construction Engineering Division.

William H. Puette, formerly Eastern Region Credit Manager, was appointed General Credit Manager and was also elected Assistant Treasurer.

Hugh M. McNeill, General Manager of Taxes, was also elected Assistant Comptroller.

Statement of Consolidated Earnings and Retained Earnings

	In Thousands of Dollars 1965	1964
Income		
Net Sales and Operating Revenues	$1,225,574	$1,198,120
Other Income	3,246	3,324
	1,228,820	1,201,444
Costs and Expenses		
Cost of Goods Sold and Operating Expenses	974,423	972,660
Selling, Administrative and Research	90,096	83,730
Depreciation and Depletion	45,094	44,083
Interest	7,974	7,802
	1,117,587	1,108,275
Earnings Before Income Taxes	111,233	93,169
Provision for Income Taxes	52,000	44,300
Net Earnings for the Year	59,233	48,869
Dividends on Preferred Stock	401	454
Net Earnings Applicable to Common Stock	58,832	48,415
(1965—$4.81 *per share;* 1964—$3.97 *per share)*		
Dividends on Common Stock	26,868	24,298
(1965—$2.20 *per share;* 1964—$2.00 *per share)*		
Retained Earnings		
Current Year	31,964	24,117
Previous Years	280,593	278,426
Reduction Resulting from Sale of Glass Container Plants (Net)	—	(21,950)
Retained Earnings—December 31	$ 312,557	$ 280,593

See notes to Financial Statements

Consolidated Balance Sheet

Assets

	In Thousands of Dollars December 31 1965	1964
Current Assets		
Cash and Short Term Securities	$ 42,022	$ 56,122
Receivables, less Allowances	92,635	85,234
Inventories	206,179	172,053
Total Current Assets	340,836	313,409
Investments and Advances	49,062	44,566
Prepaid Items and Other Assets	11,726	10,599
Property, Plant and Equipment *(at cost)*		
Land	9,952	9,494
Buildings and Equipment	776,768	741,892
Timberlands	66,681	64,534
Construction in Progress	56,666	29,165
	910,067	845,085
Less—Accumulated Depreciation and Depletion	390,821	361,114
	519,246	483,971
	$920,870	$852,545

See notes to Financial Statements

Liabilities

	In Thousands of Dollars *December 31* 1965	1964
Current Liabilities		
Payables and Accruals	$127,781	$107,125
Current Portion of Long Term Debt	4,273	3,715
Tax Accruals	36,049	26,086
Total Current Liabilities	168,103	136,926
Reserves		
Deferred Income Taxes	59,856	50,029
Other	11,060	11,127
	70,916	61,156
Long Term Debt	159,305	164,766
Stockholders' Equity		
Capital Stock		
$3.75 Cumulative Preferred	10,333	11,319
Common ($10.00 *par value*)	125,684	125,245
Paid in Surplus	88,206	86,790
Retained Earnings	312,557	280,593
	536,780	503,947
Less—Common Stock in Treasury, at Cost (1965—335,828 *shares;* 1964—336,191 *shares*)	14,234	14,250
	522,546	489,697
	$920,870	$852,545

See notes to Financial Statements

Notes to Financial Statements

General

The financial statements include the accounts of all significant subsidiaries, all of which are wholly owned. As to Canadian subsidiaries included in the statements, net current assets are expressed in United States dollars at the year-end rate of exchange; fixed assets (and related depreciation) and non-current liabilities at rates prevailing at dates of acquisition or origin; and income and expenses (other than depreciation) at rates prevailing during the year.

Inventories

Inventory valuations, stated at the lower of cost or market, were as follows:

	In Thousands of Dollars December 31	
	1965	1964
Raw Materials and Supplies	$ 81,194	$ 59,183
Work in Process and Finished Goods	124,985	112,870
	$206,179	$172,053

Cost has been determined principally on the basis of standard or average costs with the exception of 39% of the 1965 inventory (32% in 1964), which have been valued on a last-in, first-out (LIFO) basis.

Investments and Advances

Investments and Advances to associated companies are stated at cost ($25,312,000 at December 31, 1965), which is less than the Company's equity in the net assets underlying these investments. The remaining investments are stated at estimated fair value at dates acquired, which is less than the estimated fair value at December 31, 1965.

	In Thousands of Dollars December 31	
Long Term Debt	1965	1964
3⅜% debentures due October 15, 1976	$ 9,150	$ 9,600
3¼%-3¾% sinking fund debentures due November 1, 1995	39,502	39,502
3¾% promissory notes due November 1, 1995	25,000	25,000
3¾%-4¼% promissory notes due June 1, 1983	1,168	1,232
4% promissory notes due July 1, 1982	21,600	22,950
4⅝% debentures due October 1, 1985	28,000	29,000
5% promissory notes due April 1, 1980	32,900	35,000
5% promissory notes due June 25, 1970	1,985	2,482
	$159,305	$164,766

The Company is required to apply toward the retirement of the principal of the indebtedness not less than the following amounts for the period 1966 through 1970: 1966 — $4,273,000 (included in current liabilities), 1967 — $5,462,000, 1968 — $5,465,000, 1969 — $5,468,000, 1970 — $5,470,000.

Capital Stock

At December 31, 1965, the capital stock of the Company consisted of the following:

	SHARES			
	Authorized	*Issued*	*In Treasury*	*Outstanding*
$3.75 Cumulative Preferred (without par value)	150,000	150,000	46,665	103,335
Common ($10 par value)	15,000,000	12,568,392	335,828	12,232,564

At December 31, 1965, there were 389,258 shares of Common Stock (either unissued or treasury shares) reserved for sale under employees' stock purchase plans or for deferred compensation contracts.

Paid In Surplus

The increase in 1965 of $1,416,000 resulted principally from the sale of Common Stock under employees' stock purchase plans.

Stock Purchase Plans

The Company has granted Common Stock purchase options to key employees at 95 to 100 per cent of market value of the stock on the day the option was granted. At December 31, 1965 there were outstanding options to purchase 380,342 shares at prices ranging from $40.00 to $60.50 per share. Options granted prior to 1964 become exercisable in annual installments over a 10-year period from the date of grant, and options granted since then become exercisable in annual installments over a 5-year period from the date of grant. Options to purchase 92,866 shares are currently exercisable. There are 178,725 shares available for future option grants at 100% of market value of the stock on the date of grant. During 1965, 43,906 shares were purchased by employees for $1,783,000.

Miscellaneous

Refer to Financial and Operating Review (pages 18-19) for information regarding depreciation, income taxes, group insurance and pensions, and also for the amount of sales and earnings of the Hazel-Atlas glass container plants sold late in 1964.

Accountants' Opinion

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS
TWO BROADWAY NEW YORK 10004

February 14, 1966

To the Board of Directors and Stockholders,
Continental Can Company, Inc.:

We have examined the consolidated balance sheet of Continental Can Company, Inc. and consolidated subsidiaries as of December 31, 1965 and the related statement of consolidated earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of the companies at December 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

Working Capital Changes

	In Millions of Dollars			
	1965		1964	
Working Capital, as of January 1:				
Current Assets	$313.4		$287.5	
Less Current Liabilities	136.9	$176.5	110.3	$177.2
Additions to Working Capital:				
Net earnings for the year	59.2		48.9	
Items which do not require the outlay of funds:				
Depreciation and depletion	45.1		44.1	
Deferred portion of income taxes	9.8		9.8*	
Increase in reserves	—		.6*	
Total provided from operations	114.1		103.4	
Disposition of plant, property and equipment	2.7		2.3*	
Sale of Common Stock to employees	1.8		2.3	
Total Additions		118.6		108.0
		295.1		285.2
Deductions from Working Capital:				
Capital expenditures for plant, property and equipment	83.0		58.9	
Investments and advances	4.5		2.2*	
Dividends to stockholders	27.3		24.8	
Preferred Stock reacquired	.9		1.4	
Decrease in long-term debt	5.5		3.8	
Other	1.2		1.9	
Net effect on working capital due to disposition of glass plants	—		15.7	
Total Deductions		122.4		108.7
Working Capital, as of December 31:				
Current Assets	340.8		313.4	
Less Current Liabilities	168.1		136.9	
		$172.7		$176.5

**Excluding changes due to disposition of glass container plants.*

Ten Years in Review 1965–1956

	1965	1964
Income Statistics *(thousands of dollars)*		
Net Sales and Operating Revenues	$1,225,574	1,198,120
Earnings before Income Taxes	$ 111,233	93,169
Net Earnings after Income Taxes	$ 59,233	48,869
Preferred Dividends	$ 401	454
Net Earnings applicable to Common	$ 58,832	48,415
Common Dividends	$ 26,868	24,298
Retained Earnings	$ 31,964	24,117
Depreciation and Depletion	$ 45,094	44,083
Per Cent Earnings on Sales:		
Before Income Tax	9.1%	7.8%
After Income Tax	4.8%	4.1%
Per Share:		
Net Earnings Applicable to Common	$ 4.81	3.97
Common Dividends	$ 2.20	2.00
Balance Sheet Statistics *(thousands of dollars)*		
Working Capital	$ 172,733	176,483
Ratio—Current Assets to Current Liabilities	2.0-1	2.3-1
Plant and Equipment—Net	$ 519,246	483,971
Long Term Debt	$ 159,305	164,766
Preferred Stock	$ 10,333	11,319
Common Stock Equity	$ 512,213	478,378
Per Share	$ 41.87	39.25
Ratio-Stockholders' Equity to Long Term Debt	3.3-1	3.0-1
Common Shares Outstanding	12,232,564	12,188,295
Other Statistics		
Capital Expenditures *(millions of dollars)*	$ 83.0	58.9
Average Number of Employees	46,479	48,661
Payroll and Other Employment Costs *(millions of dollars)*	$ 406.6	399.4
Per Employee	$ 8,700	8,200
Total Assets per Employee	$ 19,800	17,500
Tons of Paper and Paperboard Production	1,400,023	1,349,717
Timberland Holdings—Number of Acres	1,271,462	1,265,590

1963	1962	1961	1960	1959	1958	1957	1956
1,154,024	1,182,906	1,153,331	1,116,956	1,146,529	1,080,393	1,046,267	1,010,268
85,212	86,768	76,937	58,803	80,509	84,256	81,324	88,861
40,112	40,968	36,137	27,803	40,009	41,388	41,040	43,143
484	495	508	520	532	1,537	1,608	1,628
39,628	40,473	35,629	27,283	39,477	39,851	39,432	41,515
24,093	22,336	22,261	22,184	22,033	20,225	20,131	20,596
15,535	18,137	13,368	5,099	17,444	19,626	19,301	20,919
42,826	42,655	39,605	35,822	34,096	29,120	26,278	23,421
7.4%	7.3%	6.7%	5.3%	7.0%	7.8%	7.8%	8.8%
3.5%	3.5%	3.1%	2.5%	3.5%	3.8%	3.9%	4.3%
3.27	3.26	2.87	2.21	3.21	3.51	3.52	3.72
1.95	1.80	1.80	1.80	1.80	1.80	1.80	1.80
177,202	180,622	166,365	158,202	154,137	166,596	143,066	139,823
2.6-1	2.5-1	2.4-1	2.4-1	2.1-1	2.4-1	2.1-1	2.1-1
497,015	486,434	482,495	477,400	435,092	381,455	376,771	343,376
168,602	170,755	183,534	185,711	144,601	135,060	133,328	116,346
12,900	13,117	13,360	13,800	14,100	32,797	37,982	38,438
473,724	470,690	451,836	440,629	436,482	381,769	356,435	336,820
39.07	37.90	36.44	35.74	35.44	33.62	31.86	30.16
2.9-1	2.8-1	2.5-1	2.5-1	3.1-1	3.1-1	3.0-1	3.2-1
12,126,448	12,419,558	12,400,907	12,330,326	12,314,651	11,355,315	11,186,542	11,169,312
56.1	49.9	47.8	82.2	88.9	38.1	62.3	80.5
49,138	49,094	49,332	50,651	51,817	51,892	53,886	53,717
381.9	375.2	365.9	359.6	360.1	330.8	327.8	305.3
7,800	7,600	7,400	7,100	6,900	6,400	6,100	5,700
16,500	16,400	16,000	15,100	14,500	13,300	12,300	11,800
1,293,110	1,243,795	1,180,012	1,074,817	1,084,928	969,747	978,779	1,036,172
1,261,212	1,242,703	1,214,863	1,211,927	1,175,541	1,129,009	987,038	953,847

Board of Directors

Since

1951 **Paul C. Cabot**
Chairman of the Board,
State Street Investment Corporation

1950 **Lucius D. Clay**
Senior Partner, Lehman Brothers

1948 **George P. Edmonds**
Chairman of the Board,
Wilmington Trust Company

1951 **Thomas C. Fogarty**
Chairman of the Board
of the Company

1951 **John M. Franklin**
Chairman of the Board,
United States Lines Co.

1962 **Ellison L. Hazard**
President of the Company

1962 **Helmer R. Johnson**
Attorney, partner in law firm
of Willkie Farr Gallagher
Walton & FitzGibbon

1964 **George A. Murphy**
Chairman of the Board,
Irving Trust Company

1956 **Reuben L. Perin**
Vice Chairman of the Board
of the Company

1964 **Charles E. Saltzman**
Partner, Goldman, Sachs & Co.

1960 **Sherrod E. Skinner**
Chairman, Board of Trustees,
Aerospace Corporation.
Retired Executive Vice-President,
General Motors Corporation

1964 **Fredrick J. Stare**
Chairman of the Department
of Nutrition, Harvard School
of Public Health

1960 **Charles B. Stauffacher**
Executive Vice President
(Finance and Administration)
of the Company

1964 **Jack I. Straus**
Chairman of the Board,
R. H. Macy & Co.

1966 **Lawrence Wilkinson**
Executive Vice President
(International Operations)
of the Company

Corporate Officers, Head Office

Thomas C. Fogarty .... *Chairman of the Board*

Reuben L. Perin .... *Vice Chairman of the Board*

Ellison L. Hazard .... *President*

Robert S. Hatfield .... *Executive Vice President, Metal Operations*

Charles B. Stauffacher .... *Executive Vice President, Finance and Administration*

James A. Stewart .... *Executive Vice President, Plastics, Closures and Consumer Products Group*

Lawrence Wilkinson .... *Executive Vice President, International Operations*

David R. Arnold .... *Vice President, Comptroller*

S. Bruce Smart, Jr. .... *Vice President, Marketing and Corporate Planning*

Peter P. Wojtul .... *Vice President, Secretary-Treasurer*

Lenvik Ylvisaker .... *Vice President, Overseas Manufacturing Operations*

C. Rudolph Moor .... *Resident Vice President—Europe*

Walter Betz, Franklin J. Clifford ... *Assistant Secretaries*

Jay R. Olson, Jr., William H. Puette .. *Assistant Treasurers*

Edward J. Lynn, Hugh M. McNeill .. *Assistant Comptrollers*

Transfer Agents • Registrars General Counsel

TRANSFER AGENTS

Common Stock
Bankers Trust Company
New York, N.Y.

National Trust Company Limited
Toronto and Montreal, Canada

$3.75 Cumulative Preferred Stock
Bankers Trust Company
New York, N.Y.

REGISTRARS

Common Stock
Irving Trust Company
New York, N.Y.

Eastern & Chartered Trust Company
Toronto and Montreal, Canada

$3.75 Cumulative Preferred Stock
Irving Trust Company
New York, N.Y.

GENERAL COUNSEL

Willkie Farr Gallagher Walton & FitzGibbon
New York, N.Y.

Division General Managers and Corporate Staff

Paper Products Operations Group

William M. Allin
Vice President, Paper Converting Operations

Lewis B. Pitts
Vice President, General Manager, Corrugated Container Division

George A. Oeschle, Jr.
General Manager, Folding Carton Division

Donald S. Thompson
General Manager, Fibre Drum Division

Dean P. Stout
General Manager, Paperboard and Kraft Paper Division

Louis F. Kalmar
General Manager, Woodlands Division

Plastics, Closures and Consumer Products Group

Bruce R. Petersen
Vice President, General Manager, Flexible Packaging Division

Robert P. White
Vice President, General Manager, White Cap Division

John P. Kearney
General Manager, Consumer Products Division

George K. Landon
General Manager, Bondware Division

Kenneth G. Michel
General Manager, Plastic Container Division

Robert E. Woods
General Manager, Bond Crown Division

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Fred W. Hoover, Jr.
Vice President, Assistant General Manager, Metal Operations

Horace M. Blinn
Vice President, General Manager, Pacific Metal Division

Raymond G. Fisher
Vice President, General Manager, Central Metal Division

Robert D. Heaviside
Vice President, General Manager, Eastern Metal Division

Wilbur K. Neuman
General Manager, Southern Metal Division

Equipment Manufacturing Division

Aubrey W. Vaughan, Jr.
General Manager

Continental Can Company of Canada Limited

E. Ewart Fry
President

Neil C. Darrach
Vice President, General Manager, Metal Division

George L. Ursaki
Vice President, General Manager, Paper Products Division

Corporate Research and Development

Dr. Robert B. Mesrobian
General Manager, Research and Engineering

Justin Simpson
General Manager, Corporate Equipment Engineering

Corporate Staff

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General Manager, Construction Engineering Division

Roy T. Evans, Jr.
General Manager, Purchasing

Thomas S. Harrison
General Manager, New Product Development

Carroll F. Marquard
General Manager, Manufacturing

Warren W. Nissley
Director, Corporate Planning

John F. Simons
General Manager, Industrial Relations

Everett A. Weathers
General Manager, Traffic

Richard D. Weinland
General Manager, Overseas Division

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